6. ACHIEVING IMPROVEMENTS/SUSTAINING PROGRESS IN ECONOMIC TRANSITIONS

The platform:

- The Honourable Dr Kwesi Botchwey, Minister of Finance and Economic Planning, Ghana
- Mr John Dawkins, Former Treasurer, Australia
- (Dr Carlton Davis, Cabinet Secretary and Head of the Jamaican Civil Service, was unavoidably delayed and made his presentation under this heading later in the Conference)
- Mr Nick Hare, Deputy Secretary-General, Commonwealth Secretariat (Chairperson)

Dr Botchwey and Mr Dawkins struck a strongly pragmatic note. They both described a process of economic reform which started from a clear political realisation that regulatory controls, and rigidities in systems and institutions, were creating more of the very problems which they were intended to allay. Dr Botchwey painted a picture of the Ghanaian economy in a period of rapid decline, with consequences at every level of national life, and Mr Dawkins described a time of a more gentle but nevertheless clearly downward economic slope for Australia; both emphasised the very pragmatic need to change both the policies of government, and the machinery employed by government to carry those policies out.

Both presentations firmly positioned the public service at the centre of the reform picture. In essence, and to very different degrees, they saw the stages of the vicious circle as inadequate policy-making capacity leading to weak policies, poorly implemented by a process-driven public service, leading to disappointing economic performance and an undermining of confidence in government, and consequently resulting in further limitations on the ability of government to improve its policy output.

Breaking that circle required, in their view, a determination to improve the public service and to improve the level of political input – or at the very least to remove some of the institutional weaknesses under cover of which poor political leadership could take shelter from the demands of accountability by blaming a poor public service for its failings. Yet again in this Conference, a clear political lead was identified as a fundamental requirement of achieving improvements.

Dr Botchwey emphasised that in Ghana, deregulation had been employed as a purely pragmatic macro-economic device for breaking free of the circle of decline and achieving progress. He distinguished this very clearly from "the theology of

privatisation" and other such ideologically-driven initiatives. This distinction is not an easy one to make, and the discussion following the presentations addressed the question of "progress for who?". The progress delivered at national level by deregulation and financial management reform must be weighed against the social dislocation that it engenders at the levels of family and community.

Following the presentations, the debate covered the long- and short-term consequences of this family of macro-economic strategies and, very particularly, the costs of making no changes at all. Most significantly, the senior administrators gathered for the Conference identified the public management implications of such strategies. Political policy-making does not take place in a vacuum, it is informed by advice from the public service and must take into account the ability of the public service to manage any changes that ensue. Reforming the public sector may need a clear political lead but the public service is itself an active player in stimulating or suppressing the emergence of that lead.

Dr Davis's presentation later in the Conference gave a very clear example of practical action to achieve a public service with the strategic competence to manage change.

Sustaining recovery and development in economic transitions: the role of deregulation in Ghana's experience

Edited extracts from a presentation by the Honourable Dr Kwesi Botchwey, Minister of Finance, Ghana

Ghana embarked on a programme of far-reaching economic reforms in 1983, against the background of a decade of unprecedented economic decline and crisis. It was a crisis that was a cumulative decline in real GDP of about 15 per cent and a 30 per cent decline in real per capita income. The crisis was characterised by large fiscal deficits financed mainly by borrowing from the domestic banking system with predictable consequences for inflation and the exchange rate. Typically, the reaction of successive governments was more and more state regulation resulting in a labyrinth of price distribution and import controls and the further expansion of an already large public sector through the creation of more state enterprises. This in turn led to a worsening of distortions in the economy and an erosion of incentives for production, savings and investment. In consequence, exports fell by about one-third, imports by about one-half, while external financing, especially official development assistance, just about ceased as creditors lost confidence in the economy. Widespread shortages of foreign exchange led to an intensification of parallel market activities and the near collapse of social and economic infrastructure. As per capita incomes plummeted, large numbers of Ghana's skilled and well-trained human resource began to emigrate, leaving public administration generally in a complete state of disrepair.

The Reform Programme

Against this background, the strategy of the Reform Programme was to a very large extent a conventional one: it sought to realign relative prices in favour of production, restore monetary and fiscal discipline, and repair social and economic infrastructure. The Programme also entailed radical institutional and structural reforms to improve overall efficiency and promote saving and investment and, more importantly, general deregulation of the economy through a shift from direct controls to greater reliance on markets.

The adjustment experience has not been without problems. But as all key economic indicators show, and also from the point of view of its social impact, the programme has been very successful, although of course many problems still remain. Real GDP has grown by about five per cent per annum over the programme period, making possible substantial gains in real per capita incomes. My purpose here is to discuss a very fundamental aspect of the experience, the role of deregulation in this experience, the form and content of the deregulation and the challenges that successful deregulation poses for governance and public

administration generally. But first, let me cast aside an old ideological bogey that is fast gaining new lustre. Such deregulation as was undertaken in the Reform Programme was done to enhance efficiency in the economy generally and, in particular, the efficiency of resource use. It was not done as part of some free-enterprise creed that just says the state must end all regulation and leave all economic and financial relations to market forces.

To begin with, the programme entailed a deregulation of the exchange and trade system, including domestic prices. Initially, the currency was devalued through discrete adjustments every quarter with the exchange rate being moved by reference to the inflation differential between Ghana and its principal trading partners; the adjustments were thus "administered" but by reference to a market criterion. This was followed by more direct deregulation in the form of a foreign exchange auction and the gradual unification of exchange markets in the framework of an interbank system. Side by side with these reforms, price controls were eliminated, as was import licensing, import tariffs were reduced and all restrictions on payments for current international transactions lifted.

In the area of monetary policy, deregulation took the form of a gradual liberalisation of administrative controls on interest rates and credit. Limits on maximum bank lending rates and minimum bank term deposit rates were lifted as were controls on minimum bank savings rates and controls on sectoral allocation of bank credit. These measures were buttressed by a comprehensive programme of financial sector reforms which sought to enhance the financial soundness of the banking system through an improved regulatory framework and the strengthening of banking supervision.

Major institutional and structural reforms involving deregulation were also undertaken as part of the programme. These were designed to enhance efficiency in the economy and stimulate private sector activity. A state-enterprise Reform Programme was initiated which included not only the privatisation of state ownership in enterprises, but also measures to improve the finances and efficiency of the state-enterprise sector through better corporate planning and an enhancement of enterprise autonomy, especially in day-to-day business transactions. Substantial deregulation was also undertaken in the incentive as well as the administrative and institutional framework for private investment activity. The changes in the investment regime which were effected largely through a new Code which sought to reduce the scope of administrative judgement and discretion by making investment incentives more or less automatic in their application.

The implications for public sector management

What has all this restructuring and deregulation meant for public administration generally? What management challenges has it posed? Contrary to popular belief,

extensive deregulation in the macroeconomic and the structural and institutional environment has not meant the assignment of the State to a minimalist role; it has not meant a reduction of the role of the State in economic management as such, but rather a redirection of its role away from direct intervention to monitoring and supervision in the framework of clearly defined rules and market-based policies.

The implications of this shift for the Civil Service and Public Service and for management generally have been far-reaching.

First, it has meant a fundamental reorientation of attitudes in the Civil Service and Public Service. An official of a Ministry or Department of Trade or Central Bank who has administered controls in the form of import licenses or exchange controls for a decade does not change too easily or readily to a market-based system. His professional skills and competence will usually have deteriorated under the control regime. A well-designed programme of retraining and improved incentives for the Civil Service is the only solution. The fundamental point that needs to be made is that deregulation will not succeed in bringing about greater efficiency unless it is overseen by a capable administration. The greater the resort to indirect models of economic management the greater the need for effective monitoring on the basis of the timely availability of relevant management information. Otherwise the deregulated system is likely to suffer widespread abuse and its integrity, and therefore its political acceptability, will in time be compromised.

Achieving improvements/sustaining progress in economic transitions : the Jamaican example

Edited extracts from a presentation by Dr Carlton E. Davis, Cabinet Secretary and Head of the Jamaican Civil Service

Introduction

Jamaica, like many other countries including a number whose economies were centrally planned, has been reducing the role of the State in economic management.

This paradigm shift, which has been on-going since the 1980s, has seen among other things, large-scale privatisation of State entities. According to *The Economist*, August 21, 1993, some US$69 billion of state-owned firms in 50 countries were privatised in 1992 which brought the total between 1985 and 1992 to some US$328 billion.

Privatisation is however only one facet of the transformations which are taking place. In Jamaica's case many regulating controls have been removed, such as in determining prices and the requirement for import licences for a whole range of commodities. Tariff barriers are being reduced or eliminated in keeping with various international agreements and stricter fiscal and monetary management are all part of the new order.

Central to these transformations is the public sector which must not only preside over its own diminution, but gear itself to operate effectively in the new situation.

The public sector

An immediate role of the public sector is to ensure that transformations, such as privatisation, are undertaken as efficiently and effectively as possible. It is necessary, for instance, for proper preparatory work in determining, among other things, the assets to be privatised and the form these take, the status of all liabilities and assets, and proper assessments of the values of the assets.

As part of the transformation, the public sector must respond to the call "physician heal thyself" by reducing its own size. This is necessary to support the tight fiscal and monetary controls which are necessary to create budgetary surpluses rather than deficits; enhance the prospects of a strong and stable currency; and, not least, divest those functions to private enterprise. These measures should provide more efficient and effective production and distribution of goods and services. In some

instances, reduction of size may be necessary because some activities being undertaken have outlived their usefulness.

The public sector must also gear itself for its new role. Most important, it must ensure that it is adequately staffed with competent people. Indeed, among the aims of the reduction of its size, one priority is to ensure that the available resources can attract and retain competent staff.

The Jamaican Civil Service faces an enormous challenge in this regard. It must compete, often unsuccessfully, with: the North America marketplace where geography, language, culture and historical connections make migration easy; a growing private sector, which is in several instances not restrained by competition and is thus able to offer very attractive salaries and other conditions of service to staff; and (to some extent) the local university.

The consequence is that the Civil Service is being held together by a dwindling body of competent people, some with very short tenures before retirement. It would boggle the mind of public managers from the more human-resource rich "North" to see the scope of responsibilities carried out by some senior civil servants in Jamaica. One need hardly emphasise, that time is of the essence to ensure a reasonable complement of competent staff.

There is one particular area to which special attention will have to be given. This concerns ensuring that the transformation to a more market economy works in the interests of all its participants – producer, distributor, consumer and worker. It is fair to say that the public is somewhat sceptical about what they have seen of the economic liberalisation so far as there have been, among other things, price increases on basic items like food and ethical drugs, for which explanations are not immediately obvious – if they exist at all.

Unlike developed countries where, more or less, the market works with some equity for the consumer, the following three conditions which contribute to such a situation, do not in the main exist in Jamaica: competition among producers and distributors of the main goods and services; efficient regulatory processes; and strong consumer advocacy groups.

Strengthening the Cabinet Office

The above considerations, among others, have forced Government to revamp its organisation to support the process of change in the Public Service. A strengthened Cabinet Office was one such effort. The new version Cabinet Office, was implemented following two of the more recent reports (of the many) on measures needed to reform the Public Service. The first was done (under UNDP sponsorship), by Sir Kenneth Stowe and Mr Geoffrey Morgan.

It stated in part:

"1. The first priority is to get the machinery at the centre right, i.e. to fill the void, by establishing a capability under the Prime Minister's personal authority to command and control the determination of strategy, and the development of resources – money and people – to implement it.

2. The Prime Minister's Office should therefore house a strengthened Cabinet Secretariat enhanced so as to take over: (a) full responsibility for bringing together issues which bear on the Government's strategy and presenting them to Ministers, via the Prime Minister, for collective decision; (b) the lead role in corporate planning for the Government as a whole; and (c) monitor and as necessary direct the implementation of policy. The holder of this post should be designated Head of the Civil Service".

These recommendations were supported in a report by a special committee of prominent Jamaican citizens drawn from the public, private and university sectors, chaired by the Pro Vice Chancellor of the University of the West Indies, Professor Rex Nettleford. In reference to this matter, the report stated:

> "New approaches and tasks must be assumed by the Permanent Secretaries' Board in a restructured Government machinery. This Management Board must work in tandem with Cabinet, meeting weekly; its agenda reflecting Cabinet's providing regular follow-up reports to Cabinet and chaired by the Permanent Secretary to the Cabinet".

Progress to date

The new Cabinet Office was established in July 1993, and the following progress can be noted:

1. Regular meetings with Permanent Secretaries ensure that important programmes are being implemented. Also, important issues of governance, such as reports by the Auditor General and Contractor General, are being rigorously dealt with by a committee of this Board. Through the Board, a complete review of Government's motor car policy (a major item of public expenditure) was undertaken and recommendations are being sent to Cabinet for consideration.

2. The Cabinet Office is overseeing, at the direction of the Prime Minister, the performance of eight important customer-related organisations to ensure that they all attain a level of sustainable, efficient and effective performance.

3. The Office is overseeing a comprehensive review of the awarding of contracts (another major item of expenditure, waste, and a reason for disputes between the two contending political parties) with the aim of achieving transparency, equity, efficiency and effectiveness.

4. The Office is also preparing guidelines for Cabinet submissions with the objective of achieving, among other things: more precise determinations of matters which need Cabinet's attention, or can be otherwise dealt with; more concise yet complete presentation with policy options etc.; and appropriate consultations between relevant ministries or agencies, as the case may be, prior to matters being placed on the agenda.

5. Plans are being put in place for the Cabinet Office to make its own independent policy analyses of submissions and other issues so as to advise the Prime Minister.

6. The fate of Cabinet decisions are being tracked by project officers in the Cabinet Office to ensure that they are implemented on a timely, efficient and effective basis.

7. The next, and one may say, critical phase of the Public Sector Reform Programme is being directed through the Cabinet Office, and very soon a unit (supported by the World Bank) will be set up within the Office to deal specifically with these matters.

The above are examples of the Cabinet Office fulfilling the mandate to be the focal point for change.

While it is early days yet, it is fair to say that several of the senior executives in the Public Service are convinced of the need for change; and this must, at least, be a basis for optimism.

Achieving improvements in economic transitions – is it worth it? (Australia)

Edited extracts from a presentation by John S. Dawkins,
Former Treasurer, Australia

The question in the title is, fairly obviously, rhetorical. I would not be talking about change – how to make it and how to adapt to it – unless I believed the results justified the effort.

Change is not optional for governments in today's world. The trick is to understand that fact, to analyse the nature of the changes occurring in the environment in which governments have to operate, and to adapt one's own institutions and practices accordingly. Clever, or perhaps lucky governments and public services will adapt to the changes around the corner, rather than those which have just happened.

The theme of this session relates to economic transitions, but I do not believe it is realistic to separate economic, social and political progress when one is talking about the reform of government. That certainly has not been Australia's experience.

I suspect that the challenges facing my country since I first became a government minister in 1983 have parallels in many, if not most, of the nations represented at this Conference. I do not describe some of those challenges, how we tackled them, and where we hope to go in the future because I want to hold up Australia as a model for others to copy, but because I believe that, while individual circumstances may differ, the general theme or direction of reform tends to be similar.

Outsiders tend to see Australia as a very fortunate country, blessed with great natural wealth, a wonderful climate and stable democratic institutions. For much of our short post-colonial history that has been a fair picture. We grew all or nearly all our own food. We sold wool, wheat, minerals and other primary products to what seemed insatiable overseas markets. We were part of the British Empire, and later the Commonwealth of Nations, with all the advantages that could bring to a predominantly white, Anglo-Saxon nation with few security problems because of our geographical distance from major population centres.

Our institutions reflected these comfortable facts. We established high levels of protection for our manufactured foods. We were and are a federation with much of the inefficiency that implies. And our central government departments and systems, while efficient by the standards of the time, and blessedly free of corruption and nepotism, were rigid and process-driven.

In the post-war years, particularly in the 1960s and 1970s, we failed to understand that the world was changing, that the time when we could rely on the rest of the world beating a path to our door to purchase our primary products was coming to an end. In the 1970s we were hit, like so many other countries, by high inflation, high unemployment and external deficits. And we did not, at the time, have the wherewithal to work our way out of the mess.

I am not one of those who would assert that it is possible to control the health of a single economy by domestic action. Fundamental economic forces are too powerful for that. But by the same token I do not believe it is sensible or responsible for governments to sit and wait for the next turn in the world economic cycle, in the hope that will provide a cure, because plainly it will not. By the early 1980s, when I became a minister in the Australian Government, it was apparent that substantial reform was essential. If we did not do something about the rigidities in our systems and institutions, our capacity to deliver to the Australian people the kinds of improvements we wanted to, and had promised, would be severely compromised.

One of our first priorities was, as you would expect, public sector reform. As you will appreciate when I describe what we did, in many ways this was the key to unlock the barriers to economic and social progress.

Strategic decision-making

I will start with the central decision-making process – the Cabinet system – although the major reforms in this area did not take place until we had been in government for several years.

Australia has inherited the Westminster model of Cabinet Government in which the Cabinet, the committee of government ministers responsible for making the major decisions, actually does discuss and decide upon major policy issues, usually on a weekly basis. All ministers are bound by decisions of Cabinet, which meets in private.

A major priority for us was to have a Cabinet system which enabled government ministers, collectively, to make strategic policy decisions, but not to have to worry about too many matters of detail. Typically, a weekly Cabinet meeting would not discuss more than about half a dozen matters, and of these perhaps only two or three would need prolonged discussion.

In order to achieve this happy state of affairs, we established a handful of important standing Cabinet committees which dealt with economic management, social policy and structural reform issues. The decisions of these committees, generally speaking, did not need further discussion in full Cabinet because their membership gave them sufficient authority. But all their decisions went to full Cabinet for formal endorsement and any minister was free to reopen the

discussion. In this way we ensured that all Cabinet ministers "owned" all the decisions.

Underpinning these arrangements was a well-established bureaucratic policy apparatus which, importantly, guaranteed that the views of all interested government departments on every proposal would be written down and made available to all ministers in the Cabinet or committee discussions. This obviated the need for formal "shadow" committees of public servants and ensured that, when we sat down to talk about a minister's proposal, we knew and had had a chance to think about likely objections and arguments from other quarters.

In 1987, in perhaps the most radical structural reform of Government in Australia's history, we amalgamated a number of government departments, reducing the total to eighteen, and set up a system of multi-minister portfolios. Apart from the dollar savings, which were not insignificant, the amalgamations had several important effects for us as a Government. Some of these were:

- Overlapping or associated policy areas were integrated. For example, the Department of Trade and the Department of Foreign Affairs became the single Department of Foreign Affairs and Trade. Policy development and implementation became more effective and ministers could make more decisions for themselves, without the need to check with other ministries.

- There was less need for formal co-ordinating mechanisms and less bureaucratic in-fighting.

- For the first time every department was represented by a minister at all Cabinet meetings thus ensuring all relevant views were represented.

- The amount of business needing to be discussed in Cabinet meetings declined dramatically.

- The frequency of changes in the responsibilities of ministers and departments also reduced drastically, thus increasing stability and enabling ministers and the public service to concentrate on the important work of government.

It is difficult to overemphasise, in the Australian system, the importance of getting these fundamental policy structures working efficiently so as to guarantee that ministers make the big decisions, that they have the right information base for so doing, and that collectively they see themselves as committed to the decisions Cabinet makes.

Well before these changes, we had embarked on a major programme of public sector management reform. This had two purposes. In the first place, we wanted to

get better value for the taxpayer's dollar. We saw that the public sector's priorities tended towards regulation rather than the delivery of results. Secondly, we wanted it to be Government priorities and policies which determined what public servants did. If we, the Government, were to be properly accountable to the people and the Parliament, we had to have a public sector which was accountable to the Government.

The features of our management reforms will be familiar to many since with variations they have been adopted by a number of governments. The basic thrust has been to remove unnecessary central control and to give managers responsibility for all the matters for which we want them to be accountable.

You will notice that I use the term "public service managers" in many places throughout this text. That is a deliberate choice. As little as ten years ago, many senior people in our public service did not see themselves as managers – nor indeed were they. Most responsibilities we would today regard as belonging to managers did not apply to our senior staff. They had plenty of authority, but little responsibility. They tended to be insulated from the real-world concerns of budgets, of staffing, of allocation of resources and so on.

It seemed to us that this was a potentially dangerous state of affairs. Australian Governments rely on the Public Service to deliver cost-effective services to the community, and on its senior ranks for advice on policy development and implementation. If the bulk of public servants had no direct knowledge of, or responsibility for, management of the resources entrusted to them, we could hardly be confident that the provision of public services would be efficient and effective. Still less could we expect that the people advising us on issues affecting the community would have much such understanding of the implications of their advice.

Personnel management

We therefore set out with the conscious intention of, first, turning our senior staff into managers, then letting them manage. We created a Senior Executive Service, with fewer grades than previously, with common selection criteria, staffed strictly on merit and with appointments protected against political influence. Today, these appointments are all made by the independent Public Service Commissioner.

These people were responsible, across the Public Service, for both programme delivery and policy advice. Unlike some other public sectors we consciously eschewed, for the most part, the structural separation of policy and administration, taking the view that, in many areas, those who deliver programmes are best placed to advise on related policy issues.

We then set about removing the barriers to productivity. Managers in the Public Service now make their own decisions on the creation and abolition of positions, appointments, promotions and transfers of staff (except staff of the senior executive service) and a whole range of other detailed personnel matters. The personnel management role of central agencies is now almost entirely confined to designing basic policies and standards, which line agencies apply in individual cases. As a result of these developments we were able in 1987 to abolish our central personnel agency, the Public Service Board and create a small Public Service Commission with relatively restricted, but still important responsibilities, especially in relation to senior executive service appointments.

Other reforms have included reducing over 100 separate office-based grades and classifications into a single administrative service structure, simplifying the many technical and professional grades, introducing corporate plans for all departments, individual work plans for staffing units, performance appraisal for staff, with performance-based pay at senior levels and improved management information systems throughout the Public Service.

Financial management

In financial management, we wanted to:

- provide a more efficient process to permit the Government to determine priorities and allocation of resources;
- devolve more authority to ministries and reduce central agency intervention, while keeping strict control on overall expenditure;
- encourage more focus by the Public Service on results and on measuring performance;
- make people think more rationally about spending decisions; and
- improve accountability.

We began by publishing forward estimates of expenditure for the three years following each budget. This was a reform which in retrospect seems so obvious it is hard to understand why it took so long. When you are committed to publishing your forward estimates it makes you think about out-year costs at the time of making decisions which have spending implications – a vital discipline for any government. Even more important, however, was using the forward estimates as the base for year-on-year budget estimates.

When there is certainty in ministries about their ongoing funding base, it eliminates wasteful annual budget disputes, reduces intrusive involvement by central agencies and concentrates the debate where it should be – on the bottom-line and on major policy directions. It also encourages efficiencies, because ministers and public servants can be reasonably confident that they will not lose savings they make from efficiency improvements.

The forward estimates have become one of the fundamental building blocks of the Government's Management Information System, allowing Cabinet more time in its budget deliberations to focus on the policy it wishes to pursue and on establishing changes to priorities as circumstances change.

We also simplified budgeting within governmental agencies by consolidating the various heads of expenditure, so that now the "running costs" of programmes, such as salaries and administrative expenditure, are the only separately identified headings, apart from the costs of the programmes themselves.

We combined this with removing controls on numbers of public service staff - the important control is the financial one. Also, we allowed public service managers, within limits, to carry over financial surpluses from one year to the next, or to borrow against the next year's allocation if they overspent. The aim of this was again, to give managers flexibility and encouragement to plan the use of resources more rationally. In short, they manage within their budgets, absorb minor cost increases and make and use savings.

The most significant global measure was the so-called "efficiency dividend", which required an annual automatic percentage reduction in every agency's running costs, thus returning to the budget some of the expected returns from greater efficiencies and at the same time encouraging managers to keep a constant watch on their expenditure and look for ways to make savings. The efficiency dividend has returned A$500 million to the budget since 1987 and currently returns A$80 million per annum.

Importantly too, there has been the development of programme evaluations which provide managers and government ministers with the information they need about the effectiveness with which the Public Service performs its functions. Each government programme has to be evaluated by the agency responsible for it at three to five year intervals, with the results of evaluations being lodged with the Department of Finance.

And we introduced user-pays principles to public sector agencies. When one part of Government needs a service from another, increasingly commonly it has to pay for it. The purpose of this approach is to make clear to managers that nothing is cost-free and to encourage them to modify their behaviour accordingly. Before ordering a service the manager who has to pay for it will ask whether it is essential.

I am sure you can all think of services you use which are not, or are not always essential. To give an example from our system, until recently our Attorney-General's Department provided legal advice and representation free of charge to every area of Government which wanted them. The result was demand the Department could not meet, litigation the public did not need, and costs the Government could ill afford.

Now, a public service manager who uses such services has to pay subject to some important exceptions, such as advice on constitutional matters. The Attorney-General's Department has to survive on the proceeds. It is certain that the demand for legal services will become much more realistic.

An inevitable corollary of this approach is the challenging of monopolies within Government. If managers cannot get a service without paying for it they will, in all likelihood, want to know whether it represents value for money and if not, why they can't go elsewhere. In the case of legal services, managers in our system will be able to obtain at least some of them from the private sector. The Attorney-General's Department will, for the first time in its history, have to compete or lose functions.

This is an area in which there is plenty of room for disagreement and the potential for costly mistakes, especially if the approach is carried to extremes. I would be the last to argue that it should be rigidly applied to all areas of public sector activity or that the private sector has a monopoly on efficiency. But it very much supports the overall aims of reducing costs, increasing individual managers' appreciation of the effects of their decisions, and encouraging efficiencies in service provision and resource allocation. The result, from a minister's point of view, is likely to be that the government's policy priorities get a bigger share of the resources cake as time goes on.

Government Business Enterprises

Another plank in the Government's structural reforms was improving the efficiency and accountability of its business enterprises. There are around 19 major Government Business Enterprises (GBEs) operating in the transport and communications, defence, resources and primary industries sectors.

Government trading enterprises, which also includes state enterprises, accounted for about 10 per cent of our gross domestic product in 1991-92. Two of the largest enterprises, Telecom and Australia Post, employ about 90 per cent of the labour force involved in the communications industry.

Because of the size and nature of the industries in which GBEs operate, they are well placed to play a strategic role in industry development and Australia's international competitiveness. The Government has been able to use its ownership of GBEs to introduce competitive reforms in a number of sectors, e.g. telecommunications, aviation, and rail.

In 1987, the Government began a series of reforms to its business enterprises. We gave their boards greater authority to achieve, and to be responsible for performance. For example, we removed controls in the area of industrial relations, purchasing and superannuation. Boards were given responsibility for developing business strategies, directing the management of the enterprise, and managing commercial risks. We expected them to achieve financial targets and pay dividends and taxes to the Government and, where necessary, meet explicit Government social obligations. The cost of any such social obligation was taken into account when setting financial targets.

Corporate plans now serve as the key accountability document between the enterprise and the Government. The dividend, pricing and service quality targets set in the corporate plan are the measure by which the Government is able to judge an enterprise's performance. Under this shareholder model, Ministers are responsible for overseeing the performance of GBEs and exercising strategic control, consistent with their accountability to Parliament.

A key to the success of the reforms has been the clear statement of the Government's objectives for our GBEs. Associated with the clear "mission statement" is the separation of "government" functions, such as regulation and the development of policy, from the commercial and service delivery activities of the GBE.

To draw an analogy, the old arrangements had some GBEs who were not only players in the industry, but were also the umpire and wrote the rules of the game. There were very significant conflicts of interest. The separation of these roles has been central to the restructuring of key industry sectors, to make the Australian economy more internationally competitive.

Underlying GBE reforms has been a consistent set of principles:

- where possible, promoting competition as an incentive for industries to improve efficiency;

- adopting regulatory arrangements to support competition, facilitate the development of export opportunities and take advantage of technological change;

- ensuring that improvements in GBE performance flow through to industry and consumers, for example through price-cap arrangements and service quality targets;

- bench-marking to encourage GBEs to operate at world's best practice;

- adopting pricing measures that are closely aligned to the costs of providing services, including externality costs; and

- giving explicit recognition to any public interest, social justice or safety objectives that a GBE is required to meet, through direct budget funding.

What GBE reforms have achieved.

Tangible benefits from these reforms are flowing through to the economy. To mention a few:

- in the four years from 1987-88 to 1991-92, labour productivity in the 50 major national GBEs has increased by around 10 per cent per annum;

- dividends and interest payments from GBEs are estimated at $5.2 billion for 1993-94. In 1988-89, payments from GBEs were around $170m;

- domestic and international aviation has been reformed. At the end of 1993, average domestic fares were 24 per cent lower in real terms than prior to 1987 and deregulation;

- in telecommunications, domestic call rates have fallen by about 13 per cent and international rates by 25 per cent in the last three years; and

- telecommunications exports reached $545 million in 1991-92.

Where next?

In a sense, the reforms I have described are only the beginning. Because they were the big reforms, however, future developments will tend to be incremental and continuous, rather than revolutionary.

The major immediate trends seem to me to be in the direction of emphasising and building upon the service orientation which we have tried to inculcate in our public sector. For example, we are increasing the use of evaluation to make sure programmes deliver what the Government and the people want; and we are

investigating techniques, such as bench-marking, to test our own processes for service delivery against best practice elsewhere.

There is also the question of adaptation to technological change, particularly in communications, which I suspect will transform relationships between government and citizens in a much shorter time than we may now think.

Change, we all know, is not a matter of choice, but a way of life. As you will see from what I have said, I believe it is not only essential, but also beneficial. The answer to my question, "Is it worth it?", is therefore resoundingly in the affirmative.